

Transure

For The Road Ahead...

Issue 14

October 2004

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For questions or suggestions, please feel free to contact Andy Sharpe at 800-326-8198 ext. 216 or andy@transure.com.

INSURANCE FRAUD AND ITS COSTS

Bernd Heinz, Esquire, AAMGA University

What is the cost of insurance fraud?

- * Everyone pays the price
- * \$100 billion per year are paid for false claims
- * 10-15% of all property and casualty (P&C) claims are fraudulent
- * 15-18% of all vehicle thefts are fraudulent
- * 25% of every premium dollar goes to pay for fraud
- * \$300 for each US household

The annual cost of P&C fraud to consumers is \$30-80 billion per year for all lines.

- * Auto policies pay 17-20 cents per premium dollar for fraud
- * 50% of all P&C carriers believe fraud is a "serious" problem
- * 38 states have insurance fraud bureaus
- * Carriers are spending \$650 million annually to detect and deter insurance fraud
- * The annual cost of insurance fraud could provide free medical prescription drugs for every American over 65 years of age

Insurance fraud is more likely to occur during economic downturn versus times of prosperity according to an Accenture 2003 study.

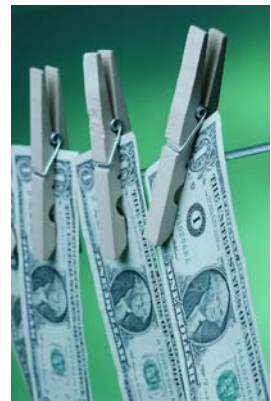
- * 66% more chance of P&C fraud during economic downturn
- * 49% commit fraud because they believe they can get away with it
- * 40% refuse to report fraud
- * 24% believe overstating the value of a claim is acceptable
- * 11% approve submitting claims to insurance companies for items that are not lost or damaged

Workers compensation fraud has an annual cost of over \$5 billion.

- * One third of all workers believe it is acceptable to stay home and collect benefits even though doctors have released them back to

work

- * Influences the financial performance of every company
- * 25% of all workers comp claims possess elements of fraud



Insurers defense to application fraud:

- * Insurer does not need to prove intent to deceive by insured to void policy
- * Only need to prove:
 - ◇ Representation made was false
 - ◇ Insured knew it to be false (even innocent misstatement that is material to risk)
 - ◇ Representation was material to the risk being insured (includes representations about prior claims, cancellations, etc. if relates to materiality)





CURRENT STATUS OF THE PROPERTY & CASUALTY INSURANCE/REINSURANCE MARKETPLACE

Bernd Heinz, Esquire, AAMGA University

“P&C insurers paid \$30.5 billion more in claims & expenses than they collected in premiums in 2002”

- * Stricter underwriting and increased pricing in 2003 improved underwriting results, but investment returns continued to deteriorate
 - * Downgrades by AM Best outpacing upgrades: 151-76
 - * 15% of the market capital surplus has been lost over the past 3 years
 - * Global Shortage of quality capital will continue the “hardening” market, along with:
 - Increased deductibles
 - Use of captives and RRGs
 - Lowering of limits of liability (especially in excess and umbrellas)
 - Additional due diligence by carriers of policyholder’s applications
 - * Results posted by reinsurers will reflect continued adverse development of asbestos and environmental claims and reserve strengthening by cedants
 - * Rating agencies believe the P&C industry reserves are understated by \$80 billion
 - * S&P predicts industry will require 2-3 more years of 15% to 20% price increases to fill the reserve void (let alone rebuilding capital surplus)
 - * Middle market and larger carriers will continue running off unprofitable books of businesses and programs
 - * AM Best - None of the top ten reinsurers have a rating A++
 - * S&P - only Berkshire Hathaway retained its AAA rating
 - * Of the top 15 global reinsurers, 10 have been downgraded in the past 18 months
 - * The 10 downgraded reinsurers represent 70% of global reinsurance premium
- P&C insurers paid \$30.5 billion more in claims & expenses than they collected in premiums in 2002.

ADDITIONAL INSURED CONCERNS

By Kent Selby, VP of Marketing, Transure

Risk managers of large corporations know that limiting the liability of their company equates to risk avoidance. The favored way to limit liability is to transfer the risk to someone else. That can be done by an indemnity agreement between that company and yours. You can agree to hold them harmless and add them as an additional insured on your policy. Easy, right? Wrong because you just accepted his risk and he did not pay you for the privilege.

Insurance companies have been issuing additional insured endorsements without batting an eye for years. Recently, insurers

have been required to pay for some claims that were not intended to be covered by the policy so some changes are coming that you should know about.

The Insurance Services Office is considering some changes to their endorsements that apply to additional insureds. To name someone an additional insured in the current ISO format is essentially shifting liability from them to the named insured on the policy. The transfer of risk takes place through indemnity provisions in the named insured’s policy via a portion of the policy dealing with contractual liability. In order to accomplish

this feat the “contract” must be recognized as an “insured contract”. In the case of a trucker, the contract you sign with a shipper to haul freight probably contains some form of indemnification agreement. In a lot of cases they want to be named as an additional insured and you agree to do that. You have been able to agree to that because up to now that was considered to be an insured contract. It is an insured contract in the policy because it was a contract or agreement that pertains to your business.

The courts have interpreted additional insured coverage as not only vicarious or joint negligence but the addi-

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ADDITIONAL INSURED CONCERNS (CONTINUED)



tional insured's sole negligence as well. This has prompted ISO to look at the language in the policy having to do with the definition of an insured contract. This revision will not only impact the coverage for an additional insured but the named insured who has indemnified the other party also. This could be you.

ISO is going to add specific language to limit the additional insured to acts of contributory negligence or for vicarious liability due to the claim arising out of operations of the named insured. The contractual language will be changed to reduce coverage for an additional insured by redefining the definition of an insured contract. The importance of this to you is to be sure you do not indemnify one of your customers for coverage you do not have.



Under the current commercial general liability policy, endorsements provide coverage for liability of the additional insured arising out of the named insured's operations. As mentioned above, the

importance of this to you is to be sure you do not indemnify one of your customers for coverage you do not have.

courts have interpreted that as long as the additional insured is doing something within the scope of the named insured's operations even the sole negligence of the additional insured may be covered by the named insured's policy. The new forms will make it so the claim must be due at least in part because of acts of the named insured.

The implications are far reaching as you will need

to read each contract you have from each customer to see what indemnification you are agreeing to when you sign. You must be sure that you are not agreeing to indemnify the sole negligence of your customer. Your customers requesting to be named as additional insureds will need to be aware of the limitation of the new form and amend their contracts to eliminate sole negligence language.

"ISO is going to add specific language to limit the additional insured to acts of contributory negligence or for vicarious liability..."

IN MEMORIAM OF OUR FRIEND DOUG WOODS—NEWTON TRANSPORTATION, INC.

GRANITE FALLS -- Mr. Woods, 63, died October 8, 2004 at Caldwell County Hospice. He was born February 1, 1941 in Caldwell CO., NC the son of the late Granville Walter Woods and Otie Mae Setzer Woods. He was a member of First Baptist Church of Granite Falls and was the CEO/owner of Newton Transportation CO., Inc. He was a trustee for First Baptist Church of Granite Falls and was a past member of the Budget and Finance Committees. He was member of the American Furniture Manufacturers Assoc., Catawba Valley Traffic Club, North Carolina Trucking Assoc., Specialized Furniture Carriers Assoc., Foundation Board of CCC & TI, past volunteer tutor for Communities In School and was a past officer for Caldwell County Chamber of Commerce. Mr. Woods was a veteran of the US Air Force. He was married to Carlene Story Woods.



In addition to his wife, he is survived by his daughters, Carola Woods Crisp and husband, Chuck of Lenoir, Amy Woods Sanders and husband, Scott of Granite Falls; brothers, Walter Max Woods of Lenoir, Cecil Travis Woods of Lenoir; sisters, Barbara Woods Seceast of Lenoir, Marilyn Woods Smith of Lenoir, Doris Woods Pope of Granite Falls, Betty Woods Witherspoon of Granite Falls; grandchildren, Claren Amy Crisp, Chandler Woods Crisp, Lauren Ranae Sanders.

In addition to his parents, he was preceded in death by a sister, Willa Dean Woods Johnson.

Memorials may be made to First Baptist Church of Granite Falls Building Fund, PO Box 507, Granite Falls, NC 28630, Hospice of Caldwell County, 902 Kirkwood St., Lenoir, NC 28645.

Doug's friendship and enthusiasm will be missed by all of us here at Transure.

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NEW: RICKISMS...JOKES BY RICK JOYCE

Transure's Controller



Q. Why do women call it PMS?

A. Mad Cow Disease was already taken.

Q. Why is divorce so expensive?

A. Because it's worth it.

Q. Why do most women pay more attention to their appearance than improving their minds?

A. Because most men are stupid but few are blind.

Q. What's a mixed feeling?

A. When you see your mother-in-law backing off a cliff in your new car.

I'm just serious!

Transure Services, Inc.

Your Truck Insurance Specialists

For over four decades, Transure has been fulfilling the insurance needs of the transportation trade. By specializing exclusively in the associated risks of that business, Transure is clearly the best qualified broker to recognize and respond to the exceptional demands created by a unique industry.

Specialization is a key to Transure's success. Our clients are provided with a host of ancillary services not available through other brokers that are not focused in the transportation insurance field. This single industry concentration enables Transure to remain consistently informed about cycles and changes in both the insurance and transportation industries. A single focus helps us match clients with the most cost effective program offered, custom tailored by a Transure team, you (the client), and the insurance carrier.

Transure Services is composed of a staff of proven professionals with over 200 years of collective experience in transportation insurance. Both sales and administrative personnel have had experience and success in direct and retail sales of this kind of insurance placement. This industry knowledge and dedication, coupled with our outstanding insurance company relationships, adds value to Transure's strength in marketing.

We pride ourselves on individual attention to service which contributes to our success and to client satisfaction. Statistical loss analysis is designed specially for various client needs. Our staff identifies the risks that adversely impact your financial statement. Once identified, we make recommendations to eliminate, reduce or transfer the risks via insurance or alternative risk financing methods.

One of our most important services is providing prompt claims services to clients when a claim occurs. Our claims department handles each loss with efficiency and speed whether we do the adjustment or it is sent to a company for handling. We follow through with the companies to ensure the satisfaction of our most valued asset, our client.



3060 S Church St
Burlington, NC 27216
Phone: 336-584-9494
Fax: 336-584-9414
Website: Transure.com